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New development: Public sector controllership—reinventing the financial specialist as a countervailing power

Henk ter Bogt, Jan van Helden and Berend van der Kolk

Different types of 'controllers' can be distinguished in the public sector. The authors' research indicates that public sector controllers acknowledge the distinctive characteristics of 'hybrid' controllers, but question some of the possible advantages of 'pure' controllers. This result could signal a decreasing share of pure controllers and thus a loss of financial expertise in the public sector. This article calls for the controller to be 're-invented' as a professional who combines solid financial expertise with an independent and critical attitude towards overly ambitious politicians and managers. The general public's support for public sector organizations could be enhanced if strong controllers counterbalance the sometimes too optimistic views of managers and politicians.

Keywords: Hybrid controller; management accountant; public sector; pure controller.

In response to allegations about public sector organizations displaying bureaucratic, inside-oriented and inefficient behaviours, New Public Management (NPM) movements have stimulated these institutions to operate in a more efficient, 'business-like' manner. This has resulted in the need for more autonomous and stronger managers. In addition, driven by innovations and novel accounting tools, such as full cost pricing and performance budgeting, 'controllers' have been encouraged to take up other roles as well, especially in the sphere of management support.

In this article, we aim to enhance the understanding of the different types of controllers in public sector organizations. In addition, we highlight the risk of a decline in financial expertise and a less critical attitude towards public sector activities due to an overvaluation of the managerial aspects in the work of controllers.

The roles of controllers

Controllers are professionals with primary responsibilities for management accounting (including budgeting, internal reporting, and costing) and related activities (including financial reporting and the development and maintenance of the administrative systems underlying management and financial reporting functions). In describing employees

who perform these kinds of tasks, the term 'management accountant' is also used in the literature (Burns and Baldvinsdottir, 2005; Byrne and Pierce, 2007). Various types of controllers have been distinguished; they differ in terms of their roles, additional tasks and positions within an organization.

Sathe (1983), for example, distinguished between two basic roles of a controller: (1) to help managers in their business decision-making; (2) to ensure that financial reporting complies with certain standards. The first role requires involvement with managerial functions, whereas the second is more of a 'book-keeper' role (Hopper, 1980), demanding a controller to be committed to the enforcement of more or less objective accounting rules or the directives as given by the top management of the organization. More recent descriptions are the 'business advocate role' and the 'watchdog or corporate policeman role', respectively (see, for example, Jablonsky *et al.* 1993; Yazdifar and Tsamenyi, 2005). Granlund and Lukka (1998) point to a continuum in the controller's roles, varying from score-keeping and bean-counting, via watchdog, consultant, and management advisor, to management team member.

The changing functions and roles of accounting do not only impact controllers but also other professionals in organizations (see,

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for example, Caglio, 2003). Two trends have been observed over time. On the one hand, controllers have lost their monopoly as the suppliers and users of accounting information, as computer software reduces these 'technical' roles and accounting information is increasingly being produced and (especially) used by non-accounting professionals. On the other hand, the spectrum of tasks as performed by controllers has been expanded from merely supplying accounting information to a wider, more managerial and strategic position related to the interpretation of data for managerial purposes.

Hybridization

While prior studies have focused on the differences in the *roles* of controllers, we aim to shed more light on the differences in *backgrounds* of, essentially, two types of controller:

- Pure controllers.
- Hybrid controllers.

The pure controller is a 'real' accounting professional whose expertise and role are rooted in subdisciplines such as management accounting, financial accounting and accounting information systems. The hybrid controller combines content-knowledge of a non-financial domain with expertise in controller-specific areas (Järvinen, 2006).

Kurunmäki (2004) investigated the 'hybridization' of the controller's function in hospitals. She studied medical professionals (doctors) in Finland who had expanded their professional expertise with knowledge and tasks from the field of management accounting, in particular budgeting and the calculation of costs and tariffs. These doctors had become what could be described as 'hybrid' controllers. Subsequent research by Järvinen (2006) showed that the hybrid controller has a relatively strong position in some hospitals, with the pure controller acting as a sparring partner, educator and information provider. However, in other hospitals, the pure controller, who has a traditional, strong background in finance and business economics, was observed to be closely and directly involved in the control of the organization.

Kurunmäki (2004) and Järvinen (2006) see hybridization as the enlargement of a non-accounting function with 'accounting expertise'. However, other routes to hybridization are also possible (Miller *et al.*, 2008). The term 'hybrid controller' can, for instance, also refer to professionals who were initially employed in

a 'content-based' function in which they gained experience in one or more particular areas, such as welfare or infrastructure, and then incorporated this expertise into their current function of controller. So, hybridization of the controller's function can be a combination of accounting and content-related experiences and educational backgrounds, while in a broader sense it is the enlargement of an accounting function by the inclusion of other types of expertise. Moreover, apart from expertise, personal skills also demarcate hybridization, particularly concerning the ability to collaborate and communicate with non-accounting professionals.

As a consequence of public sector reforms, the hybridization of the controller's function has increasingly gained momentum, particularly by the influence of NPM-based governance approaches and accounting tools (Hood, 1995). Decentralized organizational forms, a focus on outputs, more room for managerial decision-making and new accounting tools that increase the link between resources and work content (as in performance budgeting), require controllers to have at least some basic understanding of the relationship between inputs and outputs. This new context calls for controllers who are able to support managers in their daily activities. These controllers have to be fully involved in the work content of the organization and capable of transferring accounting knowledge to non-accounting colleagues.

Empirical evidence from The Netherlands

Given the limited body of research about the roles of pure and hybrid controllers in public sector and not-for-profit organizations, there is a need for more evidence about these controller types.

Based on the findings of a literature review and interviews with controllers in the Dutch public sector, we developed 10 statements related to the preferences for either pure or hybrid controllers in specific circumstances. Using a five-point Likert scale (1 representing strongly disagree and 5 representing strongly agree), these statements formed part of a survey that was sent to two groups of public sector controllers in The Netherlands. The survey yielded an overall response rate of 26% ($N = 70$). The first group consisted of members of the Dutch association of controllers in the public and non-profit sector ($N = 45$, response rate = 19.5%), and the other of participants in an executive programme for public sector controllers ($N = 25$, response rate = 62.5 %).

Our analysis of the data from these surveys, containing independent sample t-tests and visual inspection, indicated no significant differences between the responses of both groups to the 10 statements. Therefore, we combined their survey responses.

The first four statements discussed the ‘general qualities’ of both groups of controllers, whereas the other six dealt with preferences for either of the groups, given some contingencies. For each of the statements, it is indicated below how many respondents agreed (or strongly agreed) with an item (scoring a 4 or 5 on the Likert scale).

Table 1 demonstrates that, in general, there is much agreement among the respondents regarding the supposed advantages and disadvantages of the hybrid and the pure controllers’ functions. Over 65% supported statements 1, 3 and 4, indicating that our expectations about the qualities and backgrounds of the two types of controllers were generally correct. However, statement 2, referring to the expectation that pure controllers are better at counter-balancing pressure from colleagues, was only supported by a minority (44.9%) of the respondents.

The preference for a pure or a hybrid controller can depend on an organization’s circumstances (or on those of an organizational unit). Table 2 lists the respondents’ reactions to the so-called ‘contingencies’ with respect to the functions of the pure and the hybrid controller. Generally, the respondents did not acknowledge the expected preferences for pure controllers in certain situations or environments (less than 43% supported statements 5, 6 and 7). So, even in circumstances of financial distress or when a better control of processes was needed, a majority of the respondents did not prefer a pure above a hybrid controller. However, the contingencies in favour of the

hybrid controller were supported by more than 62% of the respondents (statements 8, 9 and 10). This result indicates that whenever the quality of the service provision has to be improved, or the development of new markets or services is considered important, hybrid controllers are perceived to be more valuable to the organization than their ‘pure’ counterparts. In general, our respondents seemed to think that hybrid controllers were better suited to address the challenges faced in the public sector than pure controllers.

Reinventing the pure controller

The main finding of our survey among Dutch public sector controllers was that the distinctive characteristics of hybrid controllers and the contingencies associated with this group are widely acknowledged, but that favourable qualities of pure controllers are contested. This conclusion suggests that the respondents were more ‘positive’ about hybrid controllers than about pure controllers. But why is this the case? This issue was not addressed in our survey, but—based on interviews conducted prior to collecting our survey data, as well as our own experiences in the public sector and in teaching courses for controllers—we can suggest some answers to this question.

An obvious reason may be that it is fashionable for professionals to extend the boundaries of their original profession. The idea that ‘we are all managers’ (Templar, 2011, p. xiii), or that every professional should at least to some extent be connected to managerial functions and processes, is currently highly in vogue. This guru-oriented view not only applies to the function of financial specialist, but also to engineers and other employees in organizations. However, we think that such a trend can also have a downside. In this case the dwindling appreciation for the pure controller

Table 1. Statements regarding pure and hybrid controllers (‘agreed’ refers to the respondents who agreed or strongly agreed with the statement).

Pure controllers:

1. Have more profound expertise than hybrid controllers on financial issues **(67.1% agreed)**
2. Are more resistant to other pressures from organizational members because there is more distance between them **(44.9% agreed)**

Hybrid controllers:

3. Have more expertise than pure controllers on the content of the work processes **(69.6% agreed)**
4. Communicate more easily with others within the organization because they have a better understanding of the processes because of their background **(78.6% agreed)**

Table 2. Contingencies and preferences for different types of controllers ('agreed' refers to the respondents who agreed or strongly agreed with the statement).

Pure controllers are preferred over hybrid controllers:

5. When an organization is in financial distress **(35.7 % agreed)**
 6. When an organization's focus is on controlling processes **(29% agreed)**
 7. At an organization's headquarters **(42.6% agreed)**
-

Hybrid controllers are preferred over pure controllers:

8. When an organization has to improve the quality of its services **(62.9% agreed)**
 9. When an organization's focus is on developing new markets and services **(62.9% agreed)**
 10. In the public sector due to content-related issues being more important here than financial issues **(63.8% agreed)**
-

may imply that organizations have come to prefer 'partners' or 'business advocates' with a broader view above pure controllers with more in-depth financial expertise. This development could lead to a reduction of the input of financial expertise in public sector decision-making, which in turn could be harmful to organizations in the public sector.

This scenario is particularly risky because politicians and their public sector managers are generally ambitious. This means, for example, that they are often particularly eager to realize projects that they consider important and which make them visible to the citizens/voters. Being ambitious can be regarded as a positive driver, but it also carries risks. One of these risks is that the people involved are so strongly focused on realizing a project that they tend to play down its possible drawbacks or uncertainties. This happens in the private sector, but also in the public sector, where the precise effects of a specific policy or project are often difficult to predict and measure. Moreover, a comprehensive quantification in financial terms, for example in the form of a cost-benefit analysis or a net present value calculation, is mostly very difficult to make in the public sector. This situation can easily lead to an overly optimistic presentation of new projects. Examples in The Netherlands include plans for new ice-skating stadiums and regional airports, initiatives to build new museums and theatres, and investments in business parks. We observed that in such cases the possible benefits tend to be overestimated and the costs underestimated. Of course it is difficult to make 'proper' estimates about future numbers of visitors or company profits. However, all too often estimates of future revenues or benefits

are excessively high, while the uncertainties and risks, including maintenance costs or re-investments, are downplayed or even ignored. No doubt this is due to wishful thinking, as well as the need to show positive results.

The need to present positive results that are 'quantitatively underpinned' is a problem that may relate to NPM's economic rationalism and 'economism', as well as the 'economization' of society more in general (see, for example, Cobb, 1999). Controllers—whether they are hybrid or pure—cannot really influence this economic trend. However, they could try to avoid fuelling it by presenting a fair sketch of the 'facts' and uncertainties, for example by indicating that certain costs or revenues cannot be measured in financial terms. Or they can point out the difficulty of cost calculation over a longer period of time. This requires financial expertise, but also an attitude that combines knowledge with independence and an awareness of the complexities that surround a project. Assessing these projects exclusively in financial terms is thus not recommendable. After all, some government initiatives may never have been realized if there had been a need to calculate their costs and show a positive 'net present value'. Examples are the investments in drinking-water and sewerage systems in The Netherlands since the second half of the 19th century and the introduction of cable television networks in the 1970s. So despite pressure to show positive results, an unbiased report solely containing pure facts and evidence, presented by a financial controller who understands the 'business' and its uncertainties, is certainly more desirable than the account of an 'advocate' or 'spin-doctor'. Spin-doctors, specialized in keeping up appearances, are generally not

considered trustworthy. Therefore, this is not a role a controller should be aiming for.

A combination of (financial) expertise and an independent attitude is also important as a countervailing power against the wishful thinking of politicians or managers. Here a clear focus on reporting 'evidence', i.e. giving a fair and impartial picture of financial and other issues in the short and long term, is important. In this context, civil servants who are specialized in the contents of the policy or project concerned can be regarded as advocates. Therefore, the controller should not have to take that role; it is not his or her job to help get the project realized. The controller's role is that of an unbiased assessor and critic, who understands the 'complexities of life' and focuses on the evidence. This role requires (financial) expertise and an impartial and independent attitude. Equipped with these tools and competences, it could be helpful to position controllers in the finance departments of their organizations (where they would be given direct functional connections with the financial domain). In particular in larger organizations, staffed by multiple work-content specialists in various policy fields, a strong independent—and, if necessary, countervailing—power, i.e. a strong financial controller could protect the organization from making investments in projects based on prognoses which are too optimistic.

This is not a plea for the controller to be a financial watchdog, who simply rules 'no' if the financial results are not positive, and who does not (want to) understand that certain aspects and uncertainties cannot be quantified. A controller should certainly be able to assess critically all of the benefits and costs in complex programmes and projects, and this requires expertise beyond financials. A controller also needs to have an independent attitude, founded in sound financial expertise. Furthermore, he or she has to be able to manoeuvre and provide financial-technical support within a landscape of different interests and points of view, and offer tailor-made financial-technical support if necessary. It seems clear that a pure controller is particularly welcomed, or tolerated, in times of budgetary scarcity. However, in our opinion, a controller who understands the complexities that surround projects, and does not try to polish them away, is always desirable. This controller can function within the public sector organization as a countervailing power.

Although it is not impossible, we doubt whether hybrid controllers can play such a 'countervailing' role. They may lack the

financial expertise required for this task, but, apart from that, since they are supposed to play the role of 'business advocate' and are trained to act as such, their position may make it difficult for them to take a critical attitude towards the politicians and managers and ask them unwelcome questions. However, this notion does not invalidate the findings of our survey. In line with the popular view that the controller has to be connected with management, the results indicate that the hybrid type seems to be regarded as more suitable for public sector organizations.

Increasing public trust

Our plea for mobilizing countervailing powers in public sector organizations is not meant to stop politicians and public sector managers from trying to realize their dreams and plans for the future. On the contrary, ideas and initiatives are undoubtedly needed. But if powerful people surround themselves with 'yes' men and women, their organizations may become unbalanced. With the risk of sounding somewhat conservative: we think that a controller with an independent attitude as sketched above, could have a positive influence on the general public's support for public sector organizations, particularly because this controller is focused on critically scrutinizing the future panoramas as sketched by the politicians and managers. And this approach may help win the public's trust.

What are the implications of our plea to reinvent the controller as a financial specialist? In our view, the teaching programmes for public sector controllers need some reconsideration. In recent years, we have seen (at least in The Netherlands) that these programmes have become broader. This means, for example, an increasing emphasis on topics such as human and organizational behaviour, strategic management, operations management and various 'soft controls'. The widening of topics was considered necessary to increase the communication skills of controllers and improve their skills in taking up supportive roles in the management and development of their organizations.

Although we certainly do not deny the value of these adaptations, they have come at a cost. One consequence has been that the 'technical' knowledge of accounting and financial management started to receive less attention (this has also happened in the teaching programmes for 'real' accounting professionals). It is therefore time to refocus on technical skills, i.e. the knowledge of (new)

techniques and developments in the field of accounting and financial management. But apart from technical knowledge, what might be even more important is a critical application of the accounting techniques in complex practical settings and, more generally, the development of an independent attitude. These issues could be taught, for example, by having students work on advanced cases in which specialist technical knowledge has to be combined with (and forms the basis for) asking questions and sound reasoning. In this way, students could also be trained to present their views in a clear and convincing manner. We believe that it makes sense for public sector organizations to employ financial specialists who have a critical attitude. These controllers can help in improving policy-making and, in the longer term, in increasing citizens' support for the public sector.

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